

Good morning, everybody. Dennis Engelbrecht, Digging Deeper.

I read this last week an amazing article in ENR. It was about Fluor, which is a public company, one of the largest construction companies in the world, if not the largest, and they took a loss in 2019 of a tidy \$1.7 billion. First of all, that's just an amazing number. What's really astounding is Fluor operates largely in the industrial sector, where margins are generally quite good. They do a lot of construction management where they're really making sort of a cost-plus fee in a lot of their work. So, to think that a construction company could lose this amount of money, really, I think, sends a great message to everybody. And the message is that in construction, over time, your success is defined as much by the jobs you don't do as the jobs you do do.

We're all so hungry for growth and so hungry to keep our people busy and maintain work and make money that we sometimes get drawn to making decisions we shouldn't make and go down roads we shouldn't go. So, we want to be careful. First of all, there are really two items here. One is bad job avoidance, and the other is bad job mitigation. All right, for bad job avoidance, it's really a decision-making process. To avoid getting into that contract that has terms you don't like, to agree to a schedule that really is not realistic, to go in at a lower fee than you think is prudent, to devote too much of your company resources to one job, or to go beyond your capabilities and take on something you're really not capable of doing and don't have the proven personnel to do.

The other side of it is bad job mitigation. First of all, in bad job mitigation, you have to know when a job is going wrong. You have to have those good internal controls, those deep dives in your job reviews to make sure that you're uncovering any issues or problems that may be back there, and when you do have an issue or problem, you've got to be able to run to those problems. All right? You can't be running away from your problems. You got to run to problems. And when you run to your problems, make sure you bring the big stick. By that, I mean solve the problem. Don't bandaid solutions around the problem, thinking it's going to fix itself. Time and time again, it gets proven that those bandaid solutions don't work. Make the tough decisions early, and you'll find they'll save you money in the long run. All right? Whether that's replacing a subcontractor or a supplier, terminating a bad employee that you have leading there, you've got to go big or don't go at all, so to speak.

The other thing is when you do have a job that's going wrong, oftentimes it's created a culture of failure on that job. So, just putting in a replacement superintendent or a field leader often doesn't get it done, or a new project manager. Or again, coming in with sort of band-aid solutions, you would have to change because jobs when they go wrong, it really affects everybody on that job. You really have to come in and reset the culture, reset the job, and bring everybody together. Whether it's setting some new milestones, creating a new incentive, laying down the law, whatever it might be, you've got to change things for everybody on that job if you want to get it turned around and get it doing better and to keep it from bleeding.

The last thing that I want to note about the Fluor case was their CFO noted all the steps they took to improve their internal controls. They cited basically half of that loss or \$840 million worth really came from the failure of the people out on the jobs to report what wasn't going so well accurately. So, they had gotten a culture where people were hiding the bad news, and once they dug deeper and dove deeper into how all of those jobs were doing, it all surfaced to the top, and they found that they had problems across a broad stretch of the company. So, it's oftentimes not just a single job where these problems hide. It oftentimes goes across your whole company. So, you want to make sure that you know what's going on on your jobs, you know where they're truly trending, and that can keep you out of trouble and keep you from experiencing any of those major losses.

Again, Dennis Engelbrecht, Digging Deeper.

